

This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS PRAGUE 000239

SIPDIS

STATE FOR EUR/NCE, EUR/ERA AND EB/IFD/OMA  
COMMERCE FOR 4232/ITA/MAC/MROGERS  
TREASURY FOR OIA

E.O. 12958: N/A

TAGS: [ECON](#) [PGOV](#) [EZ](#)

SUBJECT: CZECH PRESIDENT NAMES THREE NEW MEMBERS OF CENTRAL BANK BOARD

REF: 04 PRAGUE 1450

1. Summary: President Klaus appointed three new members of the board of the Czech National Bank on February 11. The three are known to be close both politically and philosophically to President Klaus and the opposition Civic Democratic Party (ODS). Klaus will have a majority of his appointees on the CNB board after 2006. The new appointees should not change the generally tough CNB approach to inflation. Their presence will be most influential when the Czech Republic begins to seriously consider adopting the euro. End Summary.

2. On February 11, President Klaus named three new members of the board of the Czech National Bank (CNB), the central bank of the Czech Republic. The three are Miroslav Singer, an economist with PriceWaterhouseCoopers Prague office, Pavel Rezabek, the former head of the Czech Consolidation Agency, and Robert Holman, a professor at the College of Economics (Vysoka Skola Ekonomicka, VSE). They replace the expiring terms of Pavel Stepanek, Pavel Rachocha and Oldrich Dedek. Klaus re-appointed Zdenek Tuma as Governor of the CNB. Tuma's reappointment was rumored for some time, but still was somewhat surprising in light of Klaus' past criticism of the CNB under Tuma's leadership (reftel).

3. Of the appointments, the most controversial was Rezabek's. Rezabek was dismissed in early 2004 from his post as Director of the Czech Consolidation Agency, which is charged with managing and liquidating the portfolio of bad debt taken over by the government in the wake of the banking crisis of the 1990's. Finance Minister Bohuslav Sobotka was particularly displeased with Rezabek's handling of the sale of a package of debt, title to which turned out to be defective, for which the government had to reimburse the purchaser Kc 370 million (\$16 million). More of an accountant than an economist, Rezabek has published no professional papers. President Klaus seems to view this as an advantage, saying that what the bank needs is a "nontheoretician, someone who has lived every micro-difficulty of individual firms and banks". Rezabek's views on central bank-government relations, interest rates, inflation and most importantly, the euro are virtually unknown.

4. Singer is an ODS stalwart, and was advisor to ODS leader Miroslav Topolaneck on issues of public finance reform. He was not afraid to criticize President Klaus (and then-Prime Minister Zeman) for promoting a law that would have limited the independence of the central bank, and he defended Tuma from Klaus and Zeman at the time Tuma was first named governor. Holman has advised Klaus in the past and is associated with the conservative Prague think-tank the Liberal Institute. He has expressed views in tune with Klaus's that the central bank's inflation targets should be set jointly between the bank and the government. However, he has shown independence of his own when he became embroiled in a dispute with VSE faculty over his refusal to hew to the established (outmoded, in his opinion) curriculum there. Most important, Singer and Holman reportedly share Klaus's misgivings about the wisdom of adopting the euro.

5. Interest rates in the Czech Republic are at historically low levels, and the advent of three board members known to be close to President Klaus, who has always pushed the CNB in the direction of lower rates, should not change that. To be fair, with the current persistent upward pressure on the crown, and low inflation rates that follow from the crown's strength and the dollar's weakness, there is not much advantage in raising rates higher. The new board members will most likely be left to apply their independent judgment to the day to day operations of the CNB. Moreover, they still are in the minority of the board. This will change when the mandates of board members Jan Frait and Michaela Erbenova end in November 2006, and Ludek Niedermayer's ends in 2008. The real test of independence will come when the moment of deciding whether to adopt the euro arrives, and after that, setting the initial exchange rate. Rezabek, Holman and Singer, and the President's future appointees, are sure to be receptive to Klaus' skeptical views on the euro.

